



HIGHLIGHTS OF THE WEEK

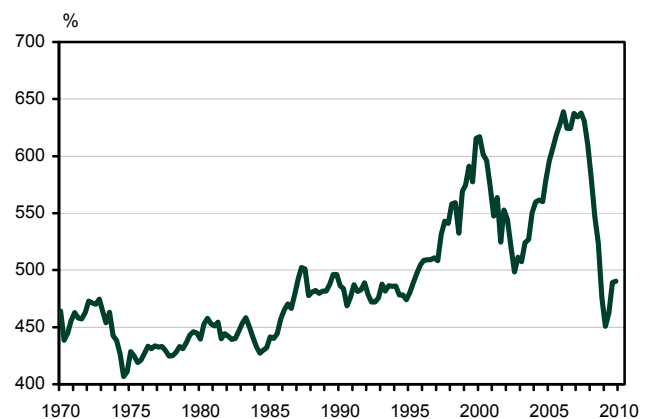
- U.S. retail sales grew by a better than expected 0.3% in February, showing no signs of letting up in the midst of winter storms that ravaged the Eastern seaboard during the month. The February gain, a 4th in 5 months, bucked expectations of a 0.2% drop, and was broadly based across retail sectors.
- The University of Michigan index shows slightly less confidence in March, but does not break the gradual trend improvement in mood seen since Q2-2009.
- U.S. household net worth grew (by 1.3% Q/Q) for a third consecutive quarter in Q4-2009, much slower than the 5% pace set in the previous two quarters. The slowdown is related to that of equity markets and a slight drop in the value of tangible assets, notably real estate. Roughly a third of household net wealth lost during the Great Recession has been recovered so far.
- At its policy meeting next week, the Federal Reserve is widely expected to leave benchmark rates unchanged near zero. In its own words, it will acknowledge signs of recovery, but caution that it is still young and fragile, and that unemployment remains elevated. We expect the Fed to reiterate that this warrants keeping rates exceptionally low for an extended period of time.
- Canadian economy adds 21,000 jobs in February, unemployment rate drops to 8.2%
- Canadian dollar inches closer to parity as commodity prices rise
- A string of positive economic data suggest Canadian economy continues to chug happily along

THIS WEEK IN THE MARKETS

| | Current* | Week Ago | 52-Week High | 52-Week Low |
|-------------------------------------|----------|----------|--------------|-------------|
| Stock Market Indexes | | | | |
| S&P 500 | 1148 | 1139 | 1150 | 751 |
| S&P/TSX Comp. | 11984 | 11975 | 11984 | 8282 |
| DAX | 5945 | 5877 | 6048 | 3954 |
| FTSE 100 | 5624 | 5600 | 5641 | 3712 |
| Nikkei | 10751 | 10369 | 10982 | 7198 |
| Fixed Income Yields | | | | |
| U.S. 10-yr Treasury | 3.71 | 3.68 | 3.95 | 2.53 |
| Canada 10-yr Bond | 3.54 | 3.47 | 3.64 | 2.70 |
| Germany 10-yr Bund | 3.17 | 3.16 | 3.72 | 2.97 |
| UK 10-yr Gilt | 4.11 | 4.06 | 4.23 | 2.95 |
| Japan 10-yr Bond | 1.35 | 1.32 | 1.56 | 1.20 |
| Foreign Exchange Cross Rates | | | | |
| C\$ (USD per CAD) | 0.98 | 0.97 | 0.98 | 0.78 |
| Euro (USD per EUR) | 1.38 | 1.36 | 1.51 | 1.29 |
| Pound (USD per GBP) | 1.52 | 1.51 | 1.70 | 1.39 |
| Yen (JPY per USD) | 90.7 | 90.3 | 101.0 | 86.4 |
| Commodity Spot Prices** | | | | |
| Crude Oil (\$US/bbl) | 82.9 | 81.5 | 83.2 | 45.9 |
| Natural Gas (\$US/MMBtu) | 4.46 | 4.55 | 7.51 | 1.88 |
| Copper (\$US/met. tonne) | 7431.3 | 7514.0 | 7630.5 | 3548.5 |
| Gold (\$US/troy oz.) | 1108.6 | 1134.7 | 1215.7 | 868.8 |

*as of 11am Friday, **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg

U.S. HOUSEHOLD NET WORTH TO PDI



Source: Federal Reserve Board

GLOBAL OFFICIAL POLICY RATE TARGETS

| | Current Target |
|-----------------------------------|----------------|
| Federal Reserve (Fed Funds Rate) | 0 - 0.25% |
| Bank of Canada (Overnight Rate) | 0.25% |
| European Central Bank (Refi Rate) | 1.00% |
| Bank of England (Repo Rate) | 0.50% |
| Bank of Japan (Overnight Rate) | 0.10% |

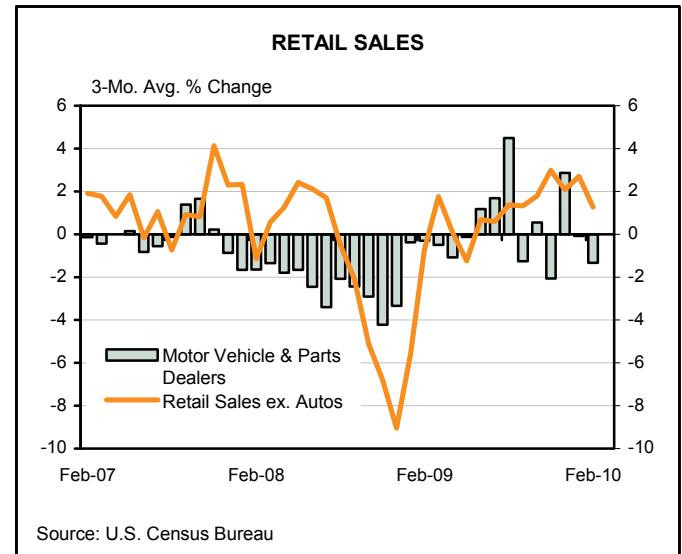
Source: Central Banks, Haver Analytics

UNITED STATES – PAPER OR PLASTIC?

It looks good so far, but mostly just on paper. As of yet, the recovery from the Great Recession has largely been a balance sheet affair. This week marked the one year anniversary (March 9th) of the stock market lows. Equities have rebounded by a stunning 60% since then. As far as tangible assets go, most important of all real estate, the S&P/Case-Shiller home price index has notched seven consecutive monthly gains from June through December 2009. A massive amount of government stimulus is also making its way through the system. Interest rates are at rock-bottom lows, worker productivity is high, inflation is muted, and manufacturing output is roaring back to life.

The unfortunate disconnect occurs when one looks at the labor market. Jobs are sorely lagging behind this rebound. The unemployment rate is understood to be a lagging indicator, but employment itself has tended to be more coincident. By historical standards, employment is nearly half a year behind 'schedule'. Thankfully, monthly job losses have abated significantly in recent months, down to a 3-month average of 57,000. The February jobs reports was also better than anticipated. Furthermore, we believe the tide may turn in March-April, with net job growth expected to finally resume. Until this actually happens though, all sorts of caveats must be placed around the paper tiger recovery. It must eventually translate into a generalized household willingness and ability to use their plastic at the counter, and not indefinitely forestall paying it back. Fortunately, things are looking modestly promising in the realm of consumer credit and retail sales – the stuff of which private-sector, self-enforcing recoveries are made of.

Total consumer credit outstanding expanded by \$5 billion in January after contracting by a total of 6% since the beginning of the recession. That contraction was not historically atypical, but its composition was. Typically it is non-revolving credit that shrinks, whereas this recession has seen revolving credit take the hardest hit. Parsing through the Federal Reserve's Senior Loan Office Survey, the current episode seems to be just as much about weaker demand than weaker supply. Uncertainty about future income forced households to delay large purchases, while a tightening of standards (e.g. lower credit limits for credit cards) has translated to lower supply of revolving credit. The demand side has naturally lagged and seems well aligned with still weak employment prospects. While revolving credit is not yet expanding, it shrank only modestly in January. Look for a trend expansion as one of the important markers on the



recovery trail. The February figures for retail sales were also encouraging. Sales grew by 0.3%, bucking expectations for a 0.2% drop amidst snow storms. Sales have been expanding at a decent 3.8% (annualized) clip over the last six months, and the most recent data is consistent with consumer spending and overall GDP growth near 3%.

It is against this backdrop of a recovery still plagued by a weak labor market that the Fed is set to meet on Tuesday. The Fed is widely expected to hold benchmark interest rates near zero and reiterate that conditions still warrant keeping them exceptionally low for an extended period of time. It should also signal an end to purchases of long term securities, as planned at the end of March. The outcome of the meeting is expected to induce a slight bond bearish / equity bullish tone, without clear direction for the currency. In other Fed matters, Janet Yellen, the San Francisco Fed President, may be nominated by President Obama for the Vice-Chairmanship of the Fed to replace Donald Kohn, who is set to retire on June 23rd. The nomination would be subject to Senate approval but seems unlikely to garner much opposition. Yellen is a renowned dove of monetary policy. Assuming confirmation, this would still leave the Fed with two vacancies on the Board. Talent abounds, and we urge the Administration to fill these vacancies in short order to fill up the brain trust at the Fed. The more the merrier, as the Fed navigates the delicate transition from an extremely accommodative policy towards a more neutral one over the next couple of years.

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U.S.: UPCOMING KEY ECONOMIC RELEASES

U.S. Housing Starts - February

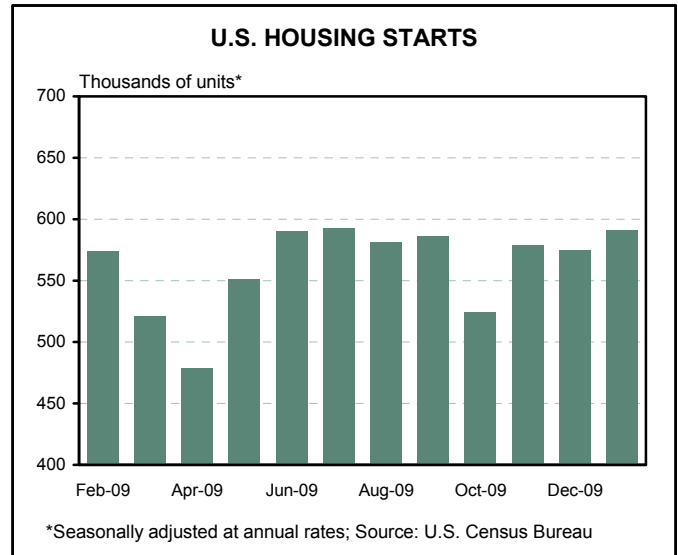
Release Date: March 16/10

January Result: 591K

TD Forecast: 580K

Consensus: 570K

New residential construction activity has continued to languish as the combination of weak new home sales (which have declined in 5 of the last 6 months) and elevated inventory levels (which stands at 9.1 months' supply, a 9-month high) has continued to keep U.S. home building on its back foot. This has clearly been reflected in the NAHB homebuilders' confidence index, which remains at the basement low of 17, well shy of the neutral 50-threshold. The contrasting fortunes between the existing and new home markets have been quite apparent for some time, as the new homes market appears not to have benefitted much in recent months, as homebuyers appear to be more inclined to purchase the more reasonably-priced foreclosed properties. In February, we expect this pattern to remain largely intact, with new residential construction falling to 580K, following the unexpected rise the month before. Almost all of the weakness should come from the volatile multiple-units



segment, while single-family construction should remain largely unchanged. In the month ahead, we expect new housing activity to remain relatively weak as the soft labour market conditions and weak economic backdrop continue to keep a lid on housing demand.

Millan Mulraine 416-308-2911

FOMC Interest Rate Decision

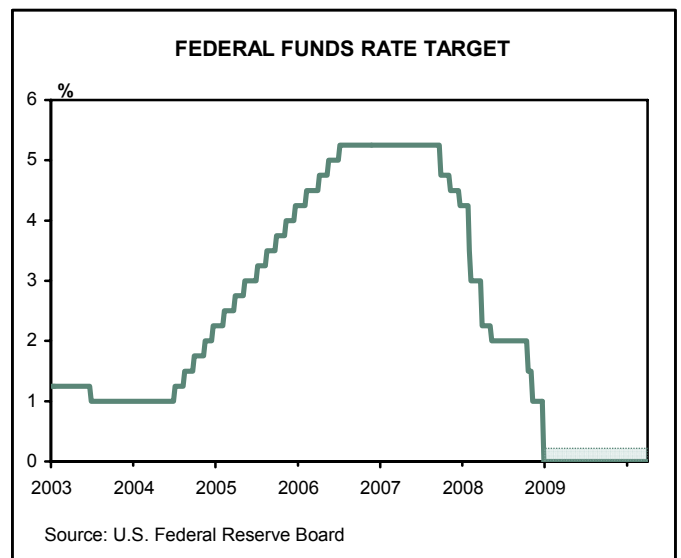
Release Date: March 16/10

Current Rate: 0.00% to 0.25%

TD Forecast: 0.00% to 0.25%

Consensus: 0.00% to 0.25%

The Federal Open Market Committee (FOMC) will deliver its next interest rate decision on March 16, and as has been the case in recent months, markets will look beyond the actual interest rate decision and focus instead on the tone and wording of the accompanying communiqué. In this regard, we expect the overall tone of the statement to remain fairly dovish, and expect the Fed to reaffirm the Committee's commitment to "maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period." The economic assessment is expected to remain largely intact, with the Fed reiterating the improving outlook for the U.S. economy, reflecting in part the encouraging tone of recent economic reports. The inflation outlook should also remain relatively unchanged, with the Committee repeating that it expects inflation to remain "subdued", on account of the



"substantial resource slack". The statement is also expected to provide a brief reference to the Fed exit strategy, with the Committee likely to briefly outline an approach for extricating the U.S. economy from the significant amount of monetary stimulus being currently administered.

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U.S. Consumer Price Index - February

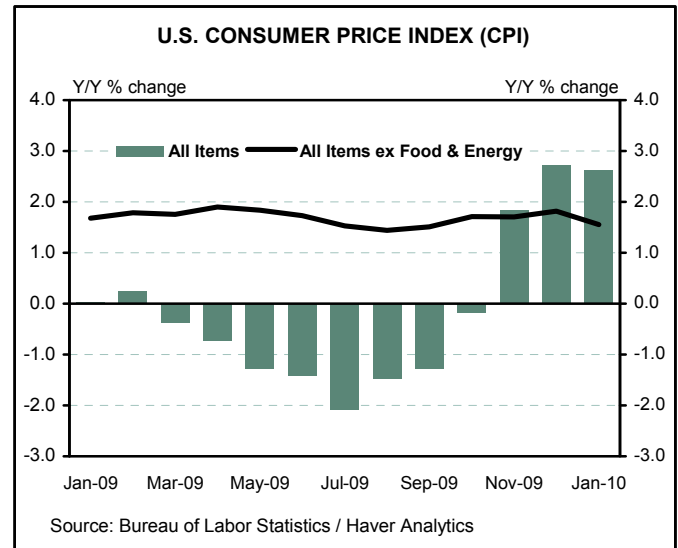
Release Date: March 18/10

January Result: core -0.1% M/M, 1.6% Y/Y; all-items 0.2% M/M, 2.6% Y/Y

TD Forecast: core 0.1% M/M, 1.4% Y/Y; all-items 0.0% M/M, 2.3% Y/Y

Consensus: core 0.1% M/M, 1.4% Y/Y; all-items 0.1% M/M, 2.3% Y/Y

Despite the recent uptick in U.S. economic activity, the combination of the weak labor market conditions and soft consumer demand has continued to keep a lid on U.S. consumer prices pressures. And given the considerable economic slack that has built-up in the economy, we expect annual core consumer price inflation to remain benign. In February, we expect weaker energy prices to fully offset the expected rise in food prices, with the headline consumer price index remaining unchanged on the month, following the modest 0.2% M/M increase in January. Prices are also expected to soften on an annual basis, with the pace of annual consumer price inflation easing to 2.3% Y/Y from 2.6% Y/Y. Core consumer price pressures should also remain fairly contained, with core prices rising by 0.1% M/M, with the annual pace of core consumer price inflation falling to



1.4% Y/Y from 1.6% Y/Y in January. Looking ahead, with the considerable economic slack likely to remain a key factor placing downward pressure on core consumer prices, we expect annual core inflation to ease further.

Millan Mulraine 416-308-2911



RECENT KEY ECONOMIC INDICATORS: MARCH 8-12, 2010

| Release Date | Economic Indicators | | Data for Period | Units | Current | Prior | |
|----------------------|------------------------------|--------------------------------|-----------------|-------------|---------|--------|----|
| United States | | | | | | | |
| Mar 9 | NFIB Small Business Optimism | | Feb | Index | 88.0 | 89.3 | |
| Mar 9 | IBD/TIPP Economic Optimism | | Mar | Index | 45.4 | 46.8 | |
| Mar 9 | ABC Consumer Confidence | | 7-Mar | Index | -49 | -49 | |
| Mar 10 | MBA Mortgage Applications | | 5-Mar | M/M % Chg. | 0.5 | 14.6 | |
| Mar 10 | Wholesale Inventories | | Jan | M/M % Chg. | -0.2 | -1.0 | R▼ |
| Mar 10 | Monthly Budget Statement | | Feb | USD, Blns | -220.9 | -193.9 | |
| Mar 11 | Trade Balance | | Jan | USD, Blns | -37.3 | -39.9 | R▲ |
| Mar 11 | Initial Jobless Claims | | 6-Mar | Thousands | 462 | 468 | R▼ |
| Mar 11 | Continuing Claims | | 27-Feb | Thousands | 4558 | 4521 | R▲ |
| Mar 12 | Advance Retail Sales | | Feb | M/M % Chg. | 0.3 | 0.1 | R▼ |
| Mar 12 | Retail Sales Less Autos | | Feb | M/M % Chg. | 0.8 | 0.5 | R▼ |
| Mar 12 | Retail Sales Ex Auto & Gas | | Feb | M/M % Chg. | 0.9 | 0.5 | R▼ |
| Mar 12 | U. of Michigan Confidence | | Mar | Index | 72.5 | 73.6 | |
| Mar 12 | Business Inventories | | Jan | M/M % Chg. | 0.0 | -0.3 | R▼ |
| Canada | | | | | | | |
| Mar 8 | Housing Starts | | Feb | Thousands | 196.7 | 185.4 | R▼ |
| Mar 11 | Capacity Utilization Rate | | Q4 | % | 70.9 | 68.7 | R▲ |
| Mar 11 | New Housing Price Index | | Jan | M/M % Chg. | 0.4 | 0.4 | |
| Mar 11 | Int'l Merchandise Trade | | Jan | Blns, CAD | 0.8 | 0.1 | R▲ |
| Mar 12 | Net Change in Employment | | Feb | Thousands | 20.9 | 43.0 | |
| Mar 12 | Unemployment Rate | | Feb | % | 8.2 | 8.3 | |
| International | | | | | | | |
| Mar 7 | NZ | QV House Prices | Feb | Y/Y % Chg. | 5.5 | 4.4 | |
| Mar 7 | JN | Adjusted Current Account Total | Jan | Blns, Yen | 1712.8 | 1302.2 | R▲ |
| Mar 7 | JN | M3 Money Supply | Feb | Y/Y % Chg. | 2.0 | 2.2 | R▲ |
| Mar 8 | JN | Eco Watchers Survey: Outlook | Feb | Index | 44.8 | 41.9 | |
| Mar 8 | FR | Bank of France Bus. Sentiment | Feb | Index | 102 | 104 | |
| Mar 8 | EC | Sentix Investor Confidence | Mar | M/M % Chg. | -7.5 | -8.2 | |
| Mar 8 | GE | Industrial Production | Jan | Y/Y % Chg. | 2.2 | -5.7 | R▲ |
| Mar 8 | AU | NAB Business Confidence | Feb | Index | 19 | 15 | |
| Mar 9 | JN | Leading Index CI | Jan | Index | 97.1 | 94.7 | R▲ |
| Mar 9 | UK | Total Trade Balance | Jan | GBP/Mln | -3768 | -2599 | R▲ |
| Mar 9 | AU | Westpac Cons. Confidence | Mar | Index | 117.3 | 117.0 | |
| Mar 9 | JN | Machine Orders | Jan | Y/Y % Chg. | -1.1 | -1.5 | |
| Mar 10 | GE | Trade Balance | Jan | Blns, Euros | 8.0 | 13.4 | R▼ |
| Mar 10 | FR | Industrial Production | Jan | Y/Y % Chg. | 3.5 | -1.8 | R▲ |
| Mar 10 | UK | Industrial Production | Jan | Y/Y % Chg. | -1.5 | -3.6 | |
| Mar 10 | NZ | RBNZ Official Cash Rate | 10-Mar | % | 2.50 | 2.50 | |
| Mar 10 | AU | Unemployment Rate | Feb | % | 5.3 | 5.2 | R▼ |
| Mar 11 | NZ | REINZ House Sales | Feb | Y/Y % Chg. | -3.8 | -1.1 | |
| Mar 11 | NZ | Retail Sales | Jan | M/M % Chg. | 0.8 | -0.4 | R▼ |
| Mar 12 | GE | Wholesale Price Index | Feb | Y/Y % Chg. | 2.1 | 1.9 | |

Source: Bloomberg, TD Economics



UPCOMING ECONOMIC RELEASES AND EVENTS: MARCH 15-19, 2010

| Release Date | Time* | Economic Indicator/Event | Data for Period | Units | Consensus Forecast | Last Period |
|----------------------|-------|--|-----------------|-------------|--------------------|-------------|
| United States | | | | | | |
| Mar 15 | 8:30 | Empire Manufacturing | Mar | Index | 20.00 | 24.91 |
| Mar 15 | 9:00 | Net Long-Term TIC Flows | | USD, Blns | -- | 63.3 |
| Mar 15 | 9:00 | Total Net TIC Flows | Jan | USD, Blns | -- | 60.9 |
| Mar 15 | 9:15 | Industrial Production | Feb | M/M % Chg. | 0.0 | 0.9 |
| Mar 15 | 9:15 | Capacity Utilization | Feb | Index | 72.6 | 72.6 |
| Mar 15 | 13:00 | NAHB Housing Market Index | Mar | Index | 17 | 17 |
| Mar 16 | 8:30 | Import Price Index | Feb | Y/Y % Chg. | 11.3 | 11.5 |
| Mar 16 | 8:30 | Housing Starts | Feb | Thousands | 570 | 591 |
| Mar 16 | 8:30 | Building Permits | Feb | Thousands | 610 | 621 |
| Mar 16 | 9:00 | <i>Fed's Open Market Committee Meets on Interest Rates</i> | | | | |
| Mar 16 | 14:15 | FOMC Rate Decision | 16-Mar | % | 0.25 | 0.25 |
| Mar 16 | 17:00 | ABC Consumer Confidence | 14-Mar. | Index | -- | -49 |
| Mar 17 | 7:00 | MBA Mortgage Applications | 12-Mar. | M/M % Chg. | -- | 0.5 |
| Mar 17 | 8:30 | Producer Price Index | Feb | Y/Y % Chg. | 5.1 | 4.6 |
| Mar 17 | 8:30 | PPI Ex. Food and Energy | Feb | Y/Y % Chg. | 1.0 | 1.0 |
| Mar 17 | 16:00 | <i>Fed's Fisher to Speak on Panel on 'Learning' from Crisis</i> | | | | |
| Mar 18 | 7:30 | <i>Fed's Duke Speaks to Bankers in Washington</i> | | | | |
| Mar 18 | 8:30 | Consumer Price Index | Feb | Y/Y % Chg. | 2.3 | 2.6 |
| Mar 18 | 8:30 | CPI Ex. Food and Energy | Feb | Y/Y % Chg. | 1.4 | 1.6 |
| Mar 18 | 8:30 | Current Account Balance | Q4 | USD, Blns | -119.8 | -108.0 |
| Mar 18 | 8:30 | Initial Jobless Claims | 13-Mar. | Thousands | 450 | 462 |
| Mar 18 | 8:30 | Continuing Claims | 6-Mar. | Thousands | -- | 4558 |
| Mar 18 | 9:00 | <i>Fed's Hoenig, Lacker, Pianto Speak to Bankers in Washington</i> | | | | |
| Mar 18 | 10:00 | Philadelphia Fed | Mar | Index | 17.6 | 17.6 |
| Mar 18 | 10:00 | Leading Indicators | Feb | M/M % Chg. | 0.1 | 0.3 |
| Mar 20 | 9:00 | <i>Bernanke Speaks to Community Bankers in Florida</i> | | | | |
| Canada | | | | | | |
| Mar 15 | 8:30 | New Motor Vehicle Sales | Jan | M/M % Chg. | 0.0 | 2.6 |
| Mar 16 | 8:30 | Manufacturing Sales | Jan | M/M % Chg. | -- | 1.6 |
| Mar 16 | 8:30 | Labour Productivity | Q4 | Q/Q % Chg. | -- | -0.2 |
| Mar 17 | 8:30 | Wholesale Sales | Jan | M/M % Chg. | -- | 0.7 |
| Mar 18 | 8:30 | International Securities Transactions | Jan | \$, Blns | -- | 11.231 |
| Mar 19 | 7:00 | Consumer Price Index | Feb | Y/Y % Chg. | 1.4 | 1.9 |
| Mar 19 | 7:00 | CPI Core | Feb | Y/Y % Chg. | 1.6 | 2.0 |
| Mar 19 | 8:30 | Retail Sales | Jan | M/M % Chg. | 0.5 | 0.4 |
| Mar 19 | 8:30 | Retail Sales Less Autos | Jan | M/M % Chg. | -- | 0.4 |
| International | | | | | | |
| Mar 14 | 18:00 | AU <i>RBA Deputy Bank Governor Edey Speaks in Sydney</i> | | | | |
| Mar 14 | -- | JP <i>Cabinet Office Releases March Economic Report</i> | | | | |
| Mar 15 | 6:00 | EU Eurozone Employment | Q4 | Y/Y % Chg. | -- | -2.1 |
| Mar 15 | 20:30 | AU <i>Reserve Bank's Board March Minutes are Released</i> | | | | |
| Mar 16 | 12:00 | JP <i>BoJ Monetary Policy Meeting</i> | | | | |
| Mar 16 | 6:00 | GE ZEW Survey (Econ. Sentiment) | Mar | Index | 43.3 | 45.1 |
| Mar 16 | 6:00 | GE ZEW Survey (Current Situation) | Mar | Index | -52.0 | -54.8 |
| Mar 16 | 6:00 | EU Euro-Zone CPI | Feb | Y/Y % Chg. | 0.9 | 0.9 |
| Mar 16 | 6:00 | EU ZEW Survey (Econ. Sentiment) | Mar | Index | 38.5 | 40.2 |
| Mar 16 | 19:30 | AU Westpac Leading Index | Jan | M/M % Chg. | -- | 0.5 |
| Mar 16 | 19:50 | JP Tertiary Industry Index | Jan | M/M % Chg. | 1.3 | -0.9 |
| Mar 16 | 21:00 | AU <i>RBA Deputy Bank Governor Debelle: Panel Discussant - Melbourne</i> | | | | |
| Mar 16 | -- | JP BoJ Target Rate | 17-Mar. | % | 0.10 | 0.10 |
| Mar 17 | 5:30 | UK <i>Bank of England Minutes are Released</i> | | | | |
| Mar 17 | 5:30 | UK Claimant Count Rate | Feb | M/M % Chg. | 5.1 | 5.0 |
| Mar 17 | 5:30 | UK Jobless Claims Change | Feb | Thousands | 8.0 | 23.5 |
| Mar 17 | 5:30 | UK ILO Unemployment Rate | Jan | % | 7.9 | 7.8 |
| Mar 17 | 6:00 | EU Construction Output | Jan | M/M % Chg. | -- | 0.5 |
| Mar 18 | 5:00 | EU ECB Euro-Zone Current Account | Jan | Euros, Blns | -- | 1.9 |
| Mar 18 | 6:00 | EU Euro-Zone Trade Balance | Jan | Euros, Blns | 5.5 | 7.0 |

* Eastern Standard Time; Sources: Bloomberg, TD Economics



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